



*Financial Affairs Committee*  
**March 15, 2002**

**1. Participants**

--Ron Jacobsma, FWUA	--George Senn, CVPWA
--Russell Harrington, WWD	--Frances Mizuno, SLDMWA
--Lynn Hurley, SCVWD	--Chase Hurley, Panoche WD
--Tona Mederios, SLDMWA (Call-in)	--Mike Hagman, TCCA
--Anthea Hansen, Del Puerto WD	--Alan Thompson, EBMUD
--Lee Emrick, Colusa Co WD	--Mike Finnegan, BOR
--Jesus Reynoso, BOR	--Maureen Reynoso, BOR

**2. Opening Business**

The March meeting was held in the ACWA Office Conference Room, 910 K Street, Sacramento. The meeting began at 9:30 a.m. and concluded at 11:30 a.m. The agenda was reviewed and approved.

The next Financial Affairs Committee meeting will be held **April 19 at 9:30am in the ACWA Office Board Room, 910 K Street, Sacramento.**

**3. FAC Issues Matrix Status.**

**A. Capital Rate-setting and Cost-Recovery.** Mike Finnegan reported that limited staff resources have severely impacted the progress of the team since the last FAC reporting. He said that the sub-team would reconvene next week. The team is looking to run the numbers but still has to select the water model it will use. After that the numbers will be run through the cost allocation and rate setting process. The team hopes to come up with a repayment curve that will result in repayment occurring by the end of the repayment period in a rational manner. When the team is finished with its work it will need to get stakeholder buy in on the numbers. Mike said that he would like to get a progress assessment after next week's meeting.

**B. PUE Issues--Post 2004 O&M Sub-allocation.** The team met on March 14 at the San Luis Delta-Mendota Water Authority offices at Tracy. Ron reported that the team was making good progress. The team continued its brainstorming exercise to develop potential formulas for sub-allocating O&M costs post 2004—when the load balancing contract with PG&E expires. Western and Reclamation plan to operate the CVP post 2004 in a maximum peaking mode—i.e., optimize water releases to maximize the value of power generated

during the peak energy usage periods and purchase power for project pumping needs when necessary. Current Reclamation thinking is that operating the CVP in the maximum peaking mode will result in a net power savings to the project, i.e., the value of the energy produced and sold at peak will be more valuable than the cost of purchasing power to meet project loads. The team has reviewed how costs are sub-allocated under the current load balancing contract and is developing formulas for sub-allocating Reclamation and Western O&M expenses, Control Area Operator charges, energy deviation charges, power purchase costs, power delivery expenses (wheeling), San Luis transmission costs, Reclamation Administrative expenses for power purchases, and DWR O&M costs for San Luis and Dos Amigos, post 2004. Ron commented that we need to know more about the maximum peaking operating alternative being considered by Reclamation and need to know how that operating mode will impact water and power rates.

**C. Cost Recovery for CVPIA Programs and Activities.** The Cost Recovery sub-team has not made much progress since the last meeting on February 20. Mike said that he would be setting up a meeting for sometime in April. Mike said that he planned on adding more detail to the worksheets we prepared during our last meeting. The worksheets captured the following information from the subsections of sections 3406 and 3407 of the Central Valley Project Improvement Act (CVPIA) that provided for the expenditure of funds:

- Reclamation and/or FWS Cost Authority
- Accounting Treatment (capital versus O&M cost),
- Cost reimbursability provided for in CVPIA and,
- Costs subject to CVP cost allocation process.

**D. Reclamation Water Accounting Program Development.** Mike reported that Reclamation accepted the WORKS program from JAVIS at the end of January 2002. It has been installed at Reclamation and is up and running. Parallel testing is completed, but the technical staff is still testing the programs Internet capability. Mike said that the program still needs some enhancements—some parts of the program are not as user friendly as Reclamation wants. Ted Asmus was tasked as the Reclamation Works technical expert and will be responsible for any programming needed to provide necessary program enhancements. JAVIS will provide some limited technical assistance. Reclamation plans to discontinue use of the old system to track current activity at the end of May 2002. Mike doesn't know the exact training dates for the Area Offices and end users—Larry Bauman will be making arrangements for training. Ron suggested that the BOR piggyback the FAC and Water Authority representative training with the Area Office training so that any problems from the water user community perspective can be spotted prior to the training provided to the CVP water contractors.

4. **Reclassification of Capital Costs (IG Report) (Hereinafter referred to as the CFO Audit Impacts Issue).** The sub-team met Tuesday, March 12, to discuss the findings contained in a June 2001 Office of Inspector General (OIG) audit report. The OIG audit disclosed that Reclamation-wide, Reclamation had inappropriately included in its construction-in-progress accounts about \$1.1 billion in costs for completed projects, costs that should have been expensed when incurred, costs for land and grants, and costs for projects whose construction

had been placed in abeyance. About \$240 million of these costs were attributable to the Central Valley Project. Reclamation staff reduced this amount by about \$195 million for multi-purpose costs more appropriately assignable as CVPIA and non-reimbursable costs and for Trinity River Restoration Program costs. The result was about \$44.9 million was found to be reimbursable from the CVP water and power contractors as an annual O&M cost. \$33.1 million was assignable to Water users and \$11.2 million to Power users. Western is giving the Power users up to 4 years to pay off their share of the misclassified costs. Reclamation has given the water users options ranging from 4 to 7 years. Ron commented that he had done some preliminary analysis and had come up with some options that might work for the water users, but had not had time to discuss the options with his constituents or other water contractors in other service areas. The group discussed the possibility of individual contractor accounting so that each contractor is only responsible for the amount attributable to him. Ron said that the FAC contractor representatives would be meeting immediately after the FAC meeting to discuss possible options. Mike requested that we get back to him by the end of next week with our options and we could follow up with another meeting or possibly a conference call.

5. **Spring Budget Workshop.**

A. **Presidents Budget.** Mike commented that the President's Budget is out and available on Reclamation's web-site.

B. **Spring Budget Workshop.** Mike reported that the date had not yet been set. He said that he would get the ball rolling. Mike passed out a draft of a report entitled Customer Involvement in O&M Program Formulation and Execution for our review.

6. **Forbearance Agreement/Reclamation Water Transfer Policy/Contract Renewal Language.** Mike has prepared a draft letter notifying the contractors as to the costs to be considered with water transfers for the 2002 contract year. Reclamation has not responded to the Forbearance letter from Friant as of yet. Mike is to initiate the Financial Issues Team from the contract renewal process to address long-term financial policies for water transfers.

7. **Reports on Ongoing FAC Interest Issues.**

A. **Direct Funding Agreements.** Reclamation met internally to discuss how to approach modification of the Transfer Agreements for the San Luis & Delta-Mendota Water Authority and the Friant Water Users Authority. The two Authorities have submitted modified language for Articles 11 and 12 for Reclamation's review. The service contracts which support funding for the Transfer Agreements remain to be revised to cover concerns expressed by the water authorities.

B. **Folsom South Canal Capital Cost Deferral/O&M Costs.** Nothing new to report.

C. **Arroyo Pasajero: Reimbursability of 1995 Flood Litigation Costs.** Mike agreed to find out what the dollar impact would be on the water users if Reclamation does not appeal

the recent Federal Court of Claims finding that Reclamation is liable for the federal share of the litigation costs associated with the 1995 Arroyo Pasajero flooding.

George R. Senn  
Finance Director